

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other	Local Government Name City of Battle Creek Police and Fire Retirement System	County Calhoun
Audit Date June 30, 2005	Opinion Date October 21, 2005	Date Accountant Report Submitted to State: December 1, 2005

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

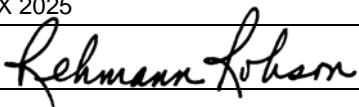
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

**CITY OF BATTLE CREEK, MICHIGAN  
POLICE AND FIRE  
RETIREMENT SYSTEM**

**Financial Statements  
And  
Supplementary Information**

**For the Year Ended  
June 30, 2005**



**REHMANN ROBSON**

*Certified Public Accountants*

**CITY OF BATTLE CREEK, MICHIGAN  
POLICE AND FIRE RETIREMENT SYSTEM**

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**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP



## **INDEPENDENT AUDITORS' REPORT**

October 21, 2005

To the Retirement Board  
City of Battle Creek, Michigan  
Police and Fire Retirement System  
Battle Creek, Michigan

We have audited the accompanying statement of plan net assets of the ***City of Battle Creek, Michigan Police and Fire Retirement System*** as of June 30, 2005, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Retirement Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the City of Battle Creek, Michigan Police and Fire Retirement System pension trust fund and do not purport to, and do not present fairly the financial position and the changes in financial position of the City of Battle Creek, Michigan in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Battle Creek, Michigan Police and Fire Retirement System as of June 30, 2005 and the changes in plan net assets thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The historical pension information listed in the table of contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

# **FINANCIAL STATEMENTS**

**CITY OF BATTLE CREEK, MICHIGAN**  
**POLICE AND FIRE RETIREMENT SYSTEM**  
**Statement of Plan Net Assets**  
**June 30, 2005**

**Assets**

Cash and cash equivalents		\$ 2,631,519
Investments:		
U.S. treasuries	\$ 5,173,134	
U.S. agencies	13,160,137	
Domestic corporate securities	20,172,719	
Domestic equities	42,688,839	
International equities	13,479,534	
Total investments		94,674,363
Interest receivable		500,050
Pension contributions receivable		72,039

**Net assets held in trust for pension and  
postemployment healthcare benefits**

\$ 97,877,971

(A schedule of funding progress for the pension plan is presented on page 10.)

The accompanying notes are an integral part of these financial statements.

**CITY OF BATTLE CREEK, MICHIGAN**  
**POLICE AND FIRE RETIREMENT SYSTEM**  
**Statement of Changes in Plan Net Assets**  
**For the Year Ended June 30, 2005**

**Additions**

Investment income:

Net realized and unrealized appreciation in fair value of investments	\$ 2,070,822
Interest and dividends	3,146,148
Less investment expenses	<u>(864,063)</u>
Net investment income	<u>4,352,907</u>

Contributions:

Employer	2,922,144
Employees	<u>998,222</u>
Total contributions	<u>3,920,366</u>
Total additions	<u>8,273,273</u>

**Deductions**

Pension benefit payments	5,473,100
Contribution refunds	41,858
Medical insurance premiums	1,531,645
Administrative expenses	<u>6,951</u>
Total deductions	<u>7,053,554</u>

**Net additions (deductions) to net assets held in trust for benefits**

Employees' pension benefits	\$ 1,593,284	
Postemployment healthcare benefits	<u>(373,565)</u>	1,219,719

Net assets held in trust for benefits, beginning of year	<u>96,658,252</u>
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**Net assets held in trust for benefits, end of year**

Reserved for employees' pension benefits	96,434,952	
Reserved for employees' postemployment healthcare benefits	<u>1,443,019</u>	<u>\$ 97,877,971</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF BATTLE CREEK, MICHIGAN

## Police and Fire Retirement System

### Notes To Financial Statements

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#### 1. PLAN DESCRIPTION

The City of Battle Creek, Michigan Police and Fire Retirement System (the “System”) is a single-employer defined benefit contributory pension plan which provides retirement, disability, death and postemployment healthcare benefits to plan members and their beneficiaries in accordance with the City of Battle Creek’s (the “City”) pension ordinance. The System covers all police and fire employees of the City of Battle Creek.

System membership consisted of the following at June 30, 2004, the date of the latest actuarial valuation:

Retirees and beneficiaries currently receiving benefits	193
Terminated employees entitled to but not yet receiving benefits	5
Vested and non-vested active participants	<u>209</u>
<b>Total</b>	<b><u>407</u></b>

Plan members are required to contribute between 7.5% and 8.0% of their annual covered salary to the System for pension benefits, depending on bargaining unit. The City contributes such additional amounts as necessary, based on actuarial determinations, to provide assets sufficient to pay for member benefits. The City’s pension contribution for the year ended June 30, 2005 represented 14.8% of the annual covered payroll; the contribution for healthcare benefits represented 8.9% of annual covered payroll.

The System is administered by the Retirement Board of the City of Battle Creek, Michigan Police and Fire Retirement System. Plan benefit provisions were established and may be amended under the authority of City Ordinances. Contribution requirements were established and may be amended subject to collective bargaining agreements and approval by the Retirement Board and City of Battle Creek City Commission.



**CITY OF BATTLE CREEK, MICHIGAN**  
**Police and Fire Retirement System**

**Notes To Financial Statements**

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**2. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting** - The System's financial statements are prepared on the accrual basis of accounting. Member contributions are recognized in the period in which they are due. The City's contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**Valuation of Investments and Income Recognition** - The System's investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages, if any, are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, if any, is based on independent appraisals. Investments that do not have established market values are reported at estimated fair value.

**Administration** - Administrative costs are financed through the System's investment earnings.

**3. DEPOSITS, INVESTMENTS AND SECURITIES LENDING**

**Deposits** - The System does not maintain any checking or other demand/time deposit accounts. Amounts reported as cash and cash equivalents in the statement of plan net assets are composed entirely of short-term investments in money market accounts.

**Investments** - The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the System to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The Retirement Board has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the System's assets. All investment decisions are subject to Michigan law and the investment policy established by the Retirement Board.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Police and Fire Retirement System**

**Notes To Financial Statements**

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The System's investments are held in a bank-administered trust fund. Following is a summary of the System's investments as of June 30, 2005:

Investments at fair value, as determined by quoted market price:	
U.S. treasuries	\$ 5,173,134
U.S. agencies:	
Not on securities loan	8,714,950
On securities loan	4,445,187
Domestic corporate securities:	
Not on securities loan	18,006,327
On securities loan	2,166,392
Domestic equities:	
Not on securities loan	32,928,043
On securities loan	9,760,796
International equities	<u>13,479,534</u>
<b>Total investments</b>	<b><u>\$ 94,674,363</u></b>

In addition to the above, the System has short-term investments of \$2,631,519 as of June 30, 2005 held entirely in money market funds.

*Credit Risk.* The System's investment policy provides that its investments in fixed income securities be limited to those rated BBB or better by a nationally recognized statistical rating organization. As of June 30, 2005, the System's investments in securities of U.S. agencies were all rated AAA by Standard & Poor's. The System's investments in corporate securities were rated by Standard & Poor's as follows:

AAA	\$ 3,592,318
AA	1,132,091
A	10,589,877
BBB	4,555,436
BB	<u>302,997</u>
	<b><u>\$ 20,172,719</u></b>

# CITY OF BATTLE CREEK, MICHIGAN

## Police and Fire Retirement System

### Notes To Financial Statements

*Custodial Credit Risk.* For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy requires that investment securities be held in trust by a third-party institution in the System's name. As such, although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the System's name.

Short-term investments in money market funds are not subject to custodial credit risk.

*Concentration of Credit Risk.* At June 30, 2005, the U. S. agencies investment portfolio was concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Portfolio</u>
U.S. agencies	Federal National Mortgage Association	52.9%
	Federal Home Loan Mortgage Association	36.7%
	Federal Home Loan Bank	7.7%

The System's investment policy requires that the securities of any one company or government agency should not exceed 10% of the total fund and no more than 25% of the total fund should be invested in any one industry.

*Interest Rate Risk.* As of June 30, 2005, maturities of the System's debt securities were as follows:

		<u>Investment Maturities (fair value by years)</u>			
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
U.S. treasuries	\$ 5,173,134	\$ 904,068	\$ 3,117,583	\$ -	\$ 1,151,483
U.S. agencies	13,160,137	-	11,561,345	1,598,792	-
Domestic corporate securities	20,172,719	1,992,880	13,490,683	4,432,829	256,327
<b>Total debt securities</b>	<b>\$ 38,505,990</b>	<b>\$ 2,896,948</b>	<b>\$ 28,169,611</b>	<b>\$ 6,031,621</b>	<b>\$ 1,407,810</b>

Of the above balances, \$404,340 of U.S. agencies securities and \$343,403 of corporate securities were callable.

# **CITY OF BATTLE CREEK, MICHIGAN**

## **Police and Fire Retirement System**

### **Notes To Financial Statements**

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The System's investment policy provides that the maximum maturity for any single fixed income security is ten years and that the weighted average portfolio maturity may not exceed eight years.

*Securities Lending.* A contract approved by the System's Board, permits the System to lend its securities to broker-dealers and banks (borrowers) for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives cash as collateral. The collateral securities cannot be pledged or sold by the System unless the borrower defaults. Collateral cash is initially pledged at 100 percent of the fair value of the securities lent, and may not fall below 100 percent during the term of the loan. There are no restrictions on the amount of securities that can be loaned. Securities on loan at year-end are classified in the preceding schedule of custodial credit risk according to the category for the collateral received on the securities lent. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodian requires it to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are on loan.

#### **4. ANNUAL REQUIRED CONTRIBUTION**

The City's annual required contribution cost for the year ended June 30, 2005, was \$1,824,879 for pension benefits and \$1,097,265 for postemployment healthcare benefits. The City made these required contributions totaling \$2,922,144 and has no retirement benefit obligation.

The annual required contribution for the year ended June 30, 2005 was determined as part of an actuarial valuation of the System as of June 30, 2003 using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on investments of 7.0% per year compounded annually; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 0.0% to 4.0% per year, depending on age and service, attributable to seniority/merit; and (d) the assumption that pension benefits will not increase after retirement. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a perpetual basis over a period of 12 years.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

**CITY OF BATTLE CREEK, MICHIGAN**  
**Police and Fire Retirement System**

**Notes To Financial Statements**

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**5. RISK MANAGEMENT**

The System is exposed to various risks of loss related to torts, errors and omissions. The System participates in the City of Battle Creek's risk management program for all of these exposures. The City's risk management program is primarily a self-insured program with reinsurance for amounts in excess of aggregate loss limits. The City estimates the liability for unpaid claims (including claims incurred but not reported) and allocates the cost to all appropriate entities and funds. There is no further exposure to the System that would require a liability to be recorded in the financial statements.

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# **GASB REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF BATTLE CREEK, MICHIGAN**  
**Police and Fire Retirement System**  
**Required Supplementary Information**

**Schedule of Funding Progress - Pension Only**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (A)</b>	<b>Actuarial Accrued Liability (AAL) (B)</b>	<b>Over (Under) Funded AAL (OAAL/UAAL) (A-B)</b>	<b>Funded Ratio (A/B)</b>	<b>Covered Payroll (C)</b>	<b>OAAL/UAAL as a % of Covered Payroll</b>
6/30/1995	\$ 59,905,524	\$ 61,595,231	\$ (1,689,707)	97.3%	\$ 9,103,643	-18.6%
6/30/1996	65,885,237	66,859,894	(974,657)	98.5%	9,834,167	-9.9%
6/30/1997	72,134,308	71,456,325	677,983	100.9%	10,039,322	6.8%
6/30/1998	79,796,431	74,796,184	5,000,247	106.7%	9,813,441	51.0%
6/30/1999	87,617,793	78,285,848	9,331,945	111.9%	9,749,682	95.7%
6/30/2000	95,548,441	83,980,778	11,567,663	113.8%	11,235,312	103.0%
6/30/2001	101,190,705	87,909,496	13,281,209	115.1%	11,615,098	114.3%
6/30/2002	103,950,731	95,368,883	8,581,848	109.0%	11,907,553	72.1%
6/30/2003	103,655,770	100,346,606	3,309,164	103.3%	11,855,130	27.9%
6/30/2004	103,745,735	104,336,169	(590,434)	99.4%	12,114,360	-4.9%

**Schedule of Employer Contributions - Pension Only**

<b>Year Ended June 30</b>	<b>Annual Required Contributions</b>	<b>Percentage Contributed</b>
1996	\$ 1,451,506	100%
1997	1,672,926	100%
1998	1,908,106	100%
1999	1,337,217	100%
2000	1,059,179	100%
2001	732,366	100%
2002	622,566	100%
2003	468,005	100%
2004	1,268,053	100%
2005	1,824,879	100%